

# **SECTION 310**

## **Operating and Maintenance Fund**

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### **310.1 Background and Purpose**

The 2002 Washington State Legislature passed SHB 2060 that requires county auditors to charge a ten-dollar recording fee on all recorded documents with the exception of those previously excluded from any fees. A portion of the revenue from the fees is deposited into the Washington Trust Account (Housing Trust Fund). The purpose of the funds is to support operations and maintenance costs of housing projects or units within housing projects that are affordable to extremely low-income persons with incomes at or below thirty percent of the area median income and that require a supplement to rent revenue to cover ongoing operating expenses. The O&M subsidy enables housing to be affordable to a broader range of extremely low-income households than would be possible without such subsidy. Funds will be used to fill the gap between eligible operating costs and project income.

The Operating and Maintenance Fund (O&M Fund) is part of the Housing Trust Fund (HTF) and will be used to support projects that have received capital dollars from the HTF. The legislation charged the Washington State Department of Community, Trade and Economic Development (CTED) with the responsibility of administering the O&M Fund. The Housing Division of CTED will administer the O&M Fund.

Except as otherwise noted in this application, the Housing Trust Fund (HTF) Guidelines and Procedures Handbook will apply to the O&M Fund. **However, these guidelines do not govern the portion of the revenue that is set aside for costs of the Emergency Shelter Assistance Program (ESAP).** Refer to WAC 365.120 for rules governing the ESAP.

### **310.2 Program Focus**

It is estimated that approximately \$4.5 million of HTF O&M Funds will be available each state fiscal year, July 1 – June 30) to organizations eligible to receive funds from the HTF.

CTED intends to support eligible projects at no more than \$50,000 per year for up to 20 years or a maximum of \$25,000 per year for up to 40 years. Subsidy amounts will be based on applicant demonstration of need and the costs for comparable projects.

### **310.3 Eligible Projects**

The first priority is to stabilize and ensure adequate operating and maintenance funds for new projects awarded HTF money. The second priority is to stabilize and ensure adequate operating and maintenance funds for existing HTF projects demonstrating need. To be eligible for O&M funds, units must be occupied by households that have incomes equal to or less than 30 percent of the area median income (as adjusted for household size).

CTED will fund existing projects for extremely low income households, projects for seasonal farmworkers and projects for persons with special needs (persons with disabilities or persons who are homeless) if all private and public debt repayment on units serving households at or below 30 percent of AMI has been eliminated AND there are no outstanding compliance or asset management issues.

### **310.4 Eligible Applicants**

All organizations listed in the HTF Guidelines and Procedure Handbook Chapter 202.1, Eligible Applicants.

### **310.6 Funding Limits**

Maximum funding will be no more than \$50,000 per project per year for up to 20 years or \$25,000 per year for up to 40 years. CTED will conduct annual reviews of operating budgets to ensure that continued subsidy is necessary for the viability of the project.

### **310.7 Tenant Rents**

Extremely low income households will pay no more than 30 percent of adjusted monthly gross income for rent and any allowable tenant-paid utilities associated with a project. Contractors may request alternate rent schedules to meet unique program objectives; specific requirements will be outlined in contracts. Annual project budgets should reflect estimated rental income based on program design unique to each project.

Household income is to be reviewed annually and the project contractor may adjust rental payments accordingly. If a household's income changes prior to the annual review (due to loss of a job, addition of a household member, death of a household member, etc.), rents can be adjusted accordingly.

Some households may have little or no income when first moving into housing. In these instances, the minimum rent may be waived or reduced until the household qualifies for public assistance or becomes employed. At the annual review, the subsidy amount may be adjusted if it is found that tenants are able to pay rent earlier than projected.

### **310.8 Adjustments to Gross Income**

When determining rents for tenants occupying eligible units, contractors will use the existing methodologies for adjusting gross income using HUD's "Technical Guide for Determining Income and Allowances for the HOME Program". In addition to the HUD methodologies, the following deductions may be used:

For a household having medical expenses in excess of three percent of their annual income, gross income can be adjusted by the amount in excess of three percent. These expenses can also include non-medical expenses for the assistance and care of household members who are handicapped or disabled.

The amount for child care (for children under 13 years of age) when it is necessary for the employment of an adult household member, or for his or her further education can be deducted from the gross income. . The amount must reflect the reasonable cost of care and cannot exceed household income.

### **310.9 Non-Subsidized Units**

When a household subsidized by the HTF O&M Fund has an increase in income greater than 30 percent of the area median income, the unit is no longer eligible to receive subsidy. At the annual review, subsidy would be discontinued and the subsidy to the project adjusted accordingly. The household earning over 30 percent of the area median income may have an adjustment to its rent depending on the project's current operating expenses.

### **310.10 Tenant-Paid Utilities**

If the cost of utilities is not included in the tenant rent but is the responsibility of the household occupying the unit, an amount equal to the estimate made or approved by the local Public Housing Authority (PHA) is subtracted from the total tenant payment to produce the monthly rent the tenant would pay the contractor. In this situation, tenants would be responsible for paying their utilities directly, regardless of the amount

### **310.11 Management Plan and Maintenance Plan**

A management plan is required for each application for the O&M Fund. The plan must be consistent with the guidelines in the Handbook Chapter 205.4. We recommend using the Local Initiatives Support Corporation (LISC) Build a Manual Software Series “Property Management Operating Procedures”.

Additionally, each funded project must have a maintenance plan at the contracting stage based on the capital needs assessment that describes how the building will be maintained. It should describe the acceptable condition for each room (living room, bathroom, kitchen, bedroom), common space (hallways, stairs, lobby), building systems (heating and plumbing), and building exterior (roof, walls, foundation, chimney). It should also include a schedule for both exterior and interior maintenance of the building. For example, maintenance standards for interior stairs could be that the stairs have lights that work, and the railings be safe and in good condition. The plan must also describe how long term maintenance will be accomplished.

### **310.12 Operating Budget and Use of Funds**

An operating budget in the required format must be submitted with each O&M Fund application for subsidy. (See HTF Guidelines and Procedures Handbook, Chapter 3 and Exhibit). For the annual review, an actual financial statement for the previous year and a proposed operating budget for the following year will be required. The budget must be based on the State’s fiscal year, which begins July 1 unless the recipient receives written permission from HTF to use a different fiscal year.

#### **Eligible uses of O&M Fund include costs for:**

- On-site salaries and benefits including all personnel costs directly associated with operating the building.
- Off-site management including overhead and personnel costs that are necessary to operate the building but are not located at the site.
- The cost of a financial audit in relation to the total HTF investment in the project.
- Administrative expenses such as, but not limited to, accounting, legal, advertising and marketing, insurance, collection loss, and real estate taxes.
- On-going maintenance expenses such as materials, janitorial supplies, maintenance contracts, security and other maintenance expenses.
- Contractor paid utilities specific to the project.
- Replacement Reserve additions, which are funds set-aside for the replacement of or major repair work on the component systems of a housing facility. The amount to be deposited in the replacement reserve account should be based on a capital needs assessment and on the analysis of all facility systems that will wear out over the life of the project, and the estimated costs of repairing and replacing those systems when they wear out. Long-term maintenance as well as replacement costs include such items as major repairs to or replacement of appliances and major fixtures, plumbing and heating systems and re-roofing. Short-term maintenance needs, such as periodic replacement of floor coverings, repainting units and general cleaning, should be budgeted through standard maintenance funds, not replacement reserve funds.
- Operating reserve additions budgeted each year to cover unforeseen operating costs. The amount is normally to be 3 months of all expenses during the first year of operations, except long-term replacement reserve items. The reserve will be allowed to accumulate until the amount is equal to 50 percent of a year’s budget for operating costs. The operating reserve may also be used to pay for work which cannot be entirely funded by the maintenance reserve. As part of the management plan, each contractor must provide their policy, including procedures and eligible costs, for how operating reserve funds may be spent. The requirements and limits on replacement and operating reserves may be

adjusted periodically, and/or for specific projects, by the HTF based on a review of the capital needs and operating risks of projects and of other public funder standards.

- The O&M Fund will not subsidize public or private lender debt service (including interest) or the costs of social services. O & M subsidies may be provided to a portion of units in a larger mixed income project which does have debt service, provided that all debt service costs are allocated to units serving households above 30% AMI or to units receiving Section 8 or other rental subsidy.

### **310.13 Project Selection**

New Projects: In response to the HTF application round, applicants will submit proposals for O&M Fund subsidy along with their application for the HTF Application requirements for the O&M Fund are included with the HTF application.

Existing HTF funded projects: There is a separate application process for existing projects. Contact Mollie Wood at [molliew@cted.wa.gov](mailto:molliew@cted.wa.gov) for information about application availability and schedule.

Each project review process considers the following project characteristics:

- Adherence to HTF criteria found in Chapter 2 of the HTF Guidelines and Procedures Handbook. Projects applying for O&M Funds must be projects applying concurrently to the HTF unless a previously HTF funded project.
- The reasonableness of the proposed operating budget;
- The amount of other operating support funds leveraged by the project including federal, other state and local support.
- The adequacy of the management plan for the proposed tenant population and building, and the experience of the sponsor in serving similar populations as well as their general affordable housing and development experience;
- The scope of rehabilitation and whether the work minimizes operating expenses;
- The scope of the project design and whether the work uses sustainable construction materials and methods;
- The adequacy of the capital needs assessment and maintenance plan in maintaining the building and preventing long-term maintenance problems;
- The commitment and reasonableness of support services, if necessary, for the proposed tenant population.

Priority in selection will be given to the following types of projects:

- Projects where all units are targeted to households below 30 percent AMI (as opposed to mixed income projects)
- Projects that serve persons with special needs including persons with disabilities and homeless persons
- Projects that provide supportive services to persons with special needs.
- Projects that provide temporary housing to seasonal farmworkers
- Projects or units that do not have other operating subsidies (example: Section 8)

Other evaluation criteria

- High Occupancy Record
- Committed Social Service Funding & Support
- Good CTED track record including property management & maintenance record, timely payments, clean audit, timely annual report submissions. (for organizations that have existing projects funded by HTF)

- Committed non-state funding
- Awards will not be made to projects with positive cash flow

### **310.14 Subsidy Term**

HTF will commit up to a maximum of 40 years of an O&M Fund subsidy for a project. Funding will begin on the date of project completion. O&M Fund awards are subject to availability of funding and to annual reviews that may result in adjustments to subsidy amounts or discontinuance of subsidy, in the discretion of CTED. For example, subsidies to HTF units may be reduced or discontinued if increasing revenues from other housing units, commercial space, or alternative subsidy sources are available to a project, or if insufficiency of currently available or projected HTF resources requires CTED to prioritize among projects receiving subsidy.

### **310.15 Annual Reviews**

CTED will conduct financial, management, operations, and maintenance reviews of projects receiving O&M Fund subsidy each year based upon material from the HTF annual report. CTED will also review the project and determine the subsidy amount for the following year. For the annual review, the contractor must provide the following materials that include but are not limited to:

- An annual report per the terms of the Housing Trust Fund contract.
- An actual financial statement, and audit, if applicable, for the project compared with the operating budget. The statement should include cumulative balances for replacement and operating reserves.
- The existing tenant profile including rental amounts charged and tenant income.
- Phased rehabilitation work planned for the next year, if any, and the source of funds for the work.
- Long-term maintenance work planned for the next year, if any. Schedule for periodic completion of a capital needs assessment that includes a life cycle cost analysis for the major building components and a 20-year schedule of replacement reserve deposits and expected expenditures.
- An operating budget for the next year with the projected monthly rent schedule. Explanation of all withdrawals from reserve funds
- A report of services outcomes and copies of service contracts upon request.
- A narrative report explaining how the subsidy received in the prior year and the subsidy requested for the next year will allow the contractor to meet its subsidy goal for extremely low-income households. Projects must provide quality housing with a minimum life of 40 years (HTF contract) or more assuming on-going capitalization and use of replacement reserves. Rehabilitation should minimize ongoing maintenance and utility costs.
- Occupancy Rates are expected to be maintained at 95% (calculated annually) or a rate determined optimal for the specific project depending upon the management plan.
- Annual budgets should reflect estimated rental income based upon program design unique to each project.

### **310.16 Subsidy Payments and Adjustments**

Subsidy will be paid on a quarterly basis. The amount and the conditions for annual use of the subsidy will be negotiated between CTED and the contractor, and established in an annual contract amendment. The amount of subsidy paid each quarter will depend on the operating budget and cumulatively cannot exceed the approved annual amount. Contractors will be required to provide quarterly financial reports.

Adjustments to the subsidy amounts may be made to projects that are not receiving the maximum subsidy when it is determined by CTED to be reasonable due to unforeseen circumstances. For example, if a contractor had tenants with much lower incomes than expected, an adjustment of the subsidy amount may

be made or if expenses such as insurance or utilities take a sudden and dramatic jump. Adjustments upward will only happen if there are sufficient uncommitted O&M funds to provide an increase. If the need for additional subsidy is due to overestimating the rental income schedule, then the contractor may be required to provide a new marketing plan and rent-up schedule when requesting a subsidy adjustment.

On the other hand, a project that is showing surplus may be required to make repayments to CTED or make additional contributions to its operating and maintenance reserves, or if those reserves are deemed adequate, its subsidy may be adjusted down until the project's cash flow requires the full subsidy again.